



## GOVERNOR'S TRANSACTION PRIVILEGE TAX SIMPLIFICATION TASK FORCE STATE AND LOCAL STANDARDIZATION WORKING GROUP MINUTES

Tuesday, November 6, 2012

1:30 PM

1820 W. Washington, St. #200, Conference Room 101  
Phoenix, Arizona 85007

A public meeting of the Transaction Privilege Tax Simplification Task Force was convened on November 6, 2012 in Conference Room 101, 1820 West Washington, St. #200, Phoenix, Arizona 85007. Notice having been duly given. Present and absent were the following members of the Task Force.

### Members Present

Michael Hunter (Chair)	Linda Stanfield
John Olsen	Keely Hitt
Miguel Teposte	Vince Perez
Tom Belshe	Kevin McCarthy
Steve Barela	Senator John McComish
Lynne Herndon	

### Members Absent

Representative Rick Gray

### Staff Present

Lorna Romero, Governor's Office  
Lindsay Scornavacco, Governor's Office  
Chris McIsaac, Governor's Office

#### 1. Call to Order

Michael Hunter called the meeting to order at 1:40 p.m.

#### 2. Use Tax

Patrick Irvine, Chair of the State and Local Standardization Working Group, made an announcement that Task Force member Linda Stanfield was featured in today's paper.

##### a) Presentation: ADOR/League of Arizona Cities and Towns

Tom Belshe made a presentation of recommendations from the League of Arizona Cities and Towns. His presentation covered the following recommendations:

- Eliminating all green page exceptions and reducing the number of city options
- Standardizing city TPT licensing
- Instituting annual renewal for state TPT licensing
- Setting the operational target date for the portal to January 1, 2014
- Identifying differences and standardizing language in all classifications
- Applying use tax in all jurisdictions

- Standardizing voluntary disclosure systems
- Implementing a single audit for all jurisdictions
- Improving taxpayer guidance and information sharing between jurisdictions

**b) Working Group Discussion and Public Comment**

Mr. Hunter stated it will be an option for taxpayers to use the portal. He asked if the cities will eventually be required to offer licensing through the online portal.

Mr. Belshe answered yes.

Mr. Hunter asked if more thought had been given to where the portal will be housed.

Mr. Belshe responded the server could be housed in state or out of state. It does not matter to the League who is responsible for the portal as long all needs, such as security, are met.

Mr. Hunter stated the original bill for the portal had the portal housed at the Department of Administration. He pointed out that the Department of Revenue also has the security capabilities to house the portal. Mr. Hunter asked if there was still room for further deliberation.

Mr. Belshe responded yes.

Lee Grafstrom from the Unified Audit Committee stated the leading candidates to operate the portal have all stated the servers would be maintained at the vendor site by the vendor.

Vince Perez stated there needs to be more people involved in the discussion on security, in light of the recent security breach at the South Carolina Department of Revenue.

Mr. Hunter stated the term harmonization used in the League's presentation implies a beautiful sound comes from a lack of uniformity. He asked if this term is a pushback on the idea of being as aggressive as possible to standardize the system as much as possible.

Mr. Belshe responded he thinks the League is being very aggressive with its elimination of green pages and reduction in options. He continued there are impacts that have not been measured yet and that the League does not want to make changes that will have significant damages to budgets.

Mr. Hunter stated he was referring to the slide that called for the examination of all common tax classifications by 2015.

Mr. Grafstrom stated the term harmonization and that slide are referring to the practice that the League and the Department of Revenue have gone through to standardize the language in state law and the Model City Tax Code under the retail classification. The other areas require more study. He continued it has taken a while to get through the retail classification and that is why they have given themselves the deadline of January 1, 2015 to review all common tax classifications.

Mr. Hunter commented that date happens to be the end of Governor Brewer's term.

Mr. Grafstrom responded that is the last possible deadline to review all classifications. As soon as

one classification is complete, the new language will go into effect. The League will not wait until the January 1<sup>st</sup> deadline.

Mr. Hunter stated uniformity is a charged word, but the Task Force has been concerned with the lack of uniformity and the problems that has created. He asked for assurances that the term harmonization is not being used to back off from reforms that create as much standardization as possible.

Mr. Grafstrom assured Mr. Hunter that was not the case. He continued that the term harmonization is being used to describe the same efforts currently taking place in Canada. He used it because the word is not as charged in the United States.

Mr. Hunter stated the term harmonization was fine to use as long as everyone understands the existing system that the Governor asked the Task Force to look at is cacophonic. He asked if having a use tax will be a local option or if the League is recommending preemption for it to be equal to the TPT.

Mr. Grafstrom responded the best tax policy is to have the TPT rate equal to the use tax rate. If they are not equal, then incentive is created to avoid local vendors. He continued he does not know what Scottsdale will do.

Kevin McCarthy asked if the short answer was that the use tax will be statewide.

Mr. Grafstrom stated option 15 regarding use tax will be taken and made part of the Model City Tax Code.

Mr. McCarthy asked if the cities already had that authority.

Mr. Belshe answered yes.

Mr. McCarthy commented he is glad to see the cities warming up to preemption.

Craig McPike from Snell & Wilmer asked if the voluntary disclosure system would be administered by the Department of Revenue.

Mr. Grafstrom responded taxpayers should be able to go to any one jurisdiction and find out how much they owe for all jurisdictions. The goal is to make it as easy as possible for the taxpayer.

Mr. McPike commented it is inconvenient for taxpayers to have to go to all jurisdictions.

Mr. Grafstrom stated the system will be one with which all jurisdictions agree.

Mr. Hunter commented the differences in the systems and multijurisdictional audits bring to light there are not only differences in tax bases, but in interpretations. He asked if the Department of Revenue has to chase all of the cities around for information, potentially disrupting their own audit schedules and resources, if the municipalities are the ones doing audits.

Mr. Grafstrom responded the state can do audits on behalf of the cities with no city auditor involved. City auditors may accompany state auditors for larger audits. He continued that the differences in interpretations are not just between the city versions and the state version. It is extremely difficult to have the same interpretations among cities themselves.

Mr. Hunter stated he would love to hear how many times Senator McComish has been reading the exact same language as his colleagues in the Senate and they have come up with different interpretations. He continued that training differs among auditors.

Mr. Grafstrom commented auditor training is its own challenge. Not only are there differences in interpretation among jurisdictions, but interpretations vary among supervisors. He continued that the cities follow whatever the state says as long as the codes are the same. The closer the cities get to having the same codes as the state, the closer interpretations will be. He stated there will never be a point where there are no differences in interpretation.

Steve Barela asked if San Luis could trigger a multijurisdictional audit if they decided they wanted to audit APS.

Mr. Grafstrom answered yes.

Mr. McCarthy stated if the Department of Revenue manages the system, San Luis could jumpstart a statewide audit.

Mr. Perez stated if the Department of Revenue has to engage in these audits, their effectiveness will shut down.

Mr. Grafstrom stated the letter “c” in the term MJAC, short for multijurisdictional audits, stands for coordinator. All audits currently go through the coordinator stationed in Tucson. An auditor sends a request to Tucson to audit Company X and Tucson replies no one else is currently working on that audit. The auditor then sends a letter of intent to all jurisdictions. Each jurisdiction then sends back a letter accepting the audit. He continued that the state has the option of declining the audit and performing their own. The cities cannot reject a state audit or they will be barred from audits for 42 months at a time.

Mr. McCarthy stated a movement jumpstarted from the bottom up for reform will likely not find taxpayer support.

Mr. Irvine commented he believes Mr. McCarthy’s point is that mandating MJAC’s may not be the model, but he stated everyone agrees on having a single audit for all jurisdictions. He continued that the Task Force should start with recommendations and then let the governments work out the complexities of how it will precisely work for taxpayers.

Mr. Hunter stated how the state gets to the point of a single audit is important.

Mr. McCarthy commented taxpayers have avoided multijurisdictional audits in the past. He continued that cooperation may be possible for a single audit if it is handled properly.

Mr. Perez stated he does not think the cities would need IRS approval to share data on sales tax among jurisdictions.

Mr. McCarthy asked if the information in question was taxpayer specific.

Mr. Perez answered yes.

John Olsen stated Gilbert has a lot of issues with taxpayers reporting to Gila Bend or vice versa. He continued he has taxpayers on his radar that have not reported, but they may be reporting to Gila Bend and he just can't see it. Gilbert and Gila Bend should be working out these mistakes among themselves.

Mr. Belshe stated that information sharing is a long-term goal.

Mr. McCarthy asked if the counties would have access to all of this information too.

Mr. Grafstrom responded that counties would be included. They have a vested interest in knowing who taxpayers are. There can be a Gilbert address that is actually in Chandler, but Chandler never knows it exists because it does not get to see the full audit. He continued that the only way to verify all of the numbers are correct is to contact every jurisdiction.

### **3. State Statutes, Green Page and Model Code Option Efforts**

Mr. Irvine stated this agenda item would be skipped because the discussion was already covered under the previous agenda item.

#### **a) Reports from Task Force Members**

No comments were made.

#### **b) Discussion and Public Comment**

No comments were made.

### **4. Working Group Recommendations**

Mr. Irvine stated his recommendations have a lot of different blanks so the Working Group can see different ways to accomplish the goals. The Task Force will have the next three weeks to think about the recommendations.

#### **a) Alternatives from Task Force Members**

Lynne Herndon asked what the format is for bringing forth alternative recommendations.

Mr. Irvine responded that because the Working Group is made up of Task Force members he does not see it necessary for the Working Group to bring forth recommendations.

Ms. Herndon added the next meeting would be extremely long if everyone brought in their own recommendations.

Mr. Hunter stated he will be taking all of the materials from the meetings to create a draft. He continued that as Chair he will try to reach a consensus for the wording. Everyone that has been

involved in this effort is aware of the areas of contention, but the Task Force is not responsible for drafting legislation. Mr. Hunter stated he has taken it upon himself to have the report finished by the November 27<sup>th</sup> meeting for the Task Force to review and give input. There does not need to be a consensus vote. If there are a series of unanimous recommendations and some disagreements, the report can note the areas where the Task Force could not reach agreement. He continued that November 27<sup>th</sup> will be a very serious and focused meeting. The deliberation process will determine how many additional meetings are needed. Mr. Hunter stated he believes there will be a need for one more meeting and that emails will be sent out to gain a sense of the Task Force members' availability.

**b) Working Group Discussion and Public Comment**

No comments were made.

**5. Adjournment**

Mr. Hunter adjourned the meeting at 2:55 p.m.